MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2020/2021

BAC2674 – TAXATION I

(All Sections/Groups)

21st OCTOBER 2020
9.00 a.m. – 12.00 p.m.
(3 Hours)

INSTRUCTIONS TO STUDENT

1. This question paper consists of 11 pages with 5 questions.
2. Attempt **ALL** questions. The distribution of the marks for each question is given.
3. Please write all your answers in the Answer Booklet provided.

QUESTION 1

Part A

Mathias Kunzer is an engineer from Germany. He arrived in Malaysia for a four-year contract with a multinational corporation based in Kuala Lumpur starting from 1 October 2016. An analysis of his passport shows the following information:

Period	Location	No. of days
01.10.2016 – 31.12.2016	In Malaysia	92
01.01.2017 – 30.06.2017	In Malaysia	181
01.07.2017 – 23.07.2017	Singapore and Thailand (business trips)	23
24.07.2017 – 23.08.2017	In Malaysia	31
24.08.2017 – 20.12.2017	Germany (business trip)	119
21.12.2017 – 25.12.2017	In Malaysia	5
26.12.2017 – 31.12.2017	Indonesia (holiday)	6
01.01.2018 – 31.05.2018	In Malaysia	151
01.06.2018 – 30.06.2018	Indonesia and Brunei (business trips)	30
01.07.2018 – 31.07.2018	Germany (holiday)	31
01.08.2018 – 31.12.2018	In Malaysia	153
01.01.2019 – 31.01.2019	In Malaysia	31
01.02.2019 – 09.03.2019	Germany and France (holiday)	37
10.03.2019 – 31.07.2019	In Malaysia	144
01.08.2019 – 31.12.2019	Middle East countries (personal trips to perform voluntary humanitarian work)	153
01.01.2020 – 30.09.2020	In Malaysia	274

Required:

For Malaysian income tax purposes, determine Mathias Kunzer's tax residence status for each of the relevant years of assessment. Explain the basis for your determination and quote the relevant provisions of the Income Tax Act 1967 (as amended).

(10 marks)

Part B

Individual taxpayers in Malaysia include those who earned employment income as well as those who operates their own sole proprietorship and partnership businesses. The residence status of these individual taxpayers plays a crucial role in determining their tax liabilities.

One of the benefits that resident individual taxpayers of this country enjoy is a scaled tax rate. The current Malaysian income tax brackets applicable to them range from 0% to 28%.

Continued …….

In addition, the resident individual taxpayers are also given additional benefits, depending on their source of income, to further reduce their taxes.

Required:

Explain any **FIVE (5)** various tax deductions enjoyed by the resident individual taxpayers operating businesses in this country.

(10 marks)

[Total: 20 marks]

QUESTION 2

Amir is an accounting graduate from Multimedia University. Upon completing his study in March 2016, he joined Phuad, Viknesh and Chuah (PVC), a medium-sized firm in Damansara Utama offering accounting, auditing, and taxation services. After three years of working there, Amir had been promoted to the permanent audit associate position with effect from 1st January 2019.

Amir had recently celebrated the birth of his son on 19th June 2019 after two years of marriage. His wife, Intan, is a full-time Master of Business Administration (MBA) student in the University of Malaya. Her tuition fees and living allowances are fully sponsored by a public scholarship, allowing her to not seek employment.

Amir, Intan, and their new-born son have been living in an apartment in Taman Tun Dr. Ismail. They also have been taking care of Intan's sixty-two-year-old mother, Hajah Ina. Hajah Ina has always been a housewife with no income of her own. In return for the couple's care, she has been looking after their son when Intan attends her classes.

The following information details Amir's income and expenses throughout the year 2019.

Employment Income and Benefits

i. A gross monthly salary of RM4,000.

ii. A performance bonus of 1.25-month salary paid in March 2019.

iii. Amir had taken a one-month study leave in October 2019 to focus on his ICAEW's professional examinations. PVC had paid his salary in full for this month.

iv. The gross monthly salaries, performance bonus, and salary paid during the study leave had been subjected to 11% deduction for Employees' Provident Fund (EPF) contribution.

v. Contribution for SOCSO of RM19.75 per month had also been deducted from his gross monthly salaries and salary paid during the study leave.

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vi. Travelling allowance amounting to RM250 per month to assist Amir's field audit assignments.

vii. A family medical benefit package that had covered RM1,800 for the whole year. Out of that amount, RM1,750 was for Intan's maternity expenses.

viii. In February 2019, PVC had sent Amir to Sarawak to perform audit works on several clients located in that state. PVC had provided Amir with hotel accommodation throughout the entire month. The room costed RM120 per night.

Other income

i. On 15th January 2019, Amir had received a dividend of USD300 from his investment in an American bio-tech start-up. The exchange rate applicable on that date was USD1:RM4.10.

ii. Interest amounting to RM325 had been credited into his Maybank savings account on 15th June 2019. It was derived from his fixed deposit savings in that bank.

Expenditure

i. Purchase of laptop and printer by Amir for Intan's study. The laptop and printer costed RM1,899 and RM367 respectively.

ii. Payment of RM350 annual subscription fee to the Malaysian Institute of Accountant under Amir's name.

iii. Purchase of books and references totalling RM725 by Amir and Intan for their respective studies.

iv. Amir paid RM1,800 for his ICAEW tuition fees.

v. Medical expense paid by Amir for Hajah Ina's clinic visit amounting to RM100.

vi. Broadband subscription registered under Amir's name for the family use. The bill was RM130 per month throughout the year.

vii. A yearly premium on medical insurance for Amir, Intan, and their baby amounting to RM4,000.

viii. Zakat payment of RM29.60 had been made on 31st May 2019.

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Required:

Calculate Amir's income tax payable for the Year of Assessment 2019. Show **ALL** relevant workings. Write down your answer for **income tax payable** to the nearest TWO (2) decimal points.

*Note: You should indicate by the use of word "**nil**" for any item referred to in the question which no adjusting entry needs to be made or no reliefs or rebates to be given in the tax computation.*

(Total: 20 marks)

QUESTION 3

MK QualitySafety Manufacturing (MQSM) is a local business owned solely by Tuan Maliq Khan. Over almost two decades of its existence, the business has specialised in the manufacturing of durable and quality safety products, ranging from traffic safety products to personal protective equipment designed for the safe and efficient work performance. The business closes its account to 31 December each year.

In January 2019, MQSM began constructing a new factory building in MIEL Industrial Area, Rawang, Selangor. The expenditures incurred in the construction are as follows:

Expenditure	RM
Land	2,500,000
Building plan approval fee	23,000
Legal fee for land acquisition	18,000
Architect's fees	37,000
Stamp duty for purchase of land	2,500
Construction costs of factory	1,800,000
Road and car park within the factory compound	9,000
Interest on loan taken to finance the construction costs	48,000
Drainage and irrigation	46,000
Plumbing and wiring	25,000
Fencing	39,000
Total costs	**4,547,500**

The construction was completed on 15 April 2019. MQSM subsequently commenced its manufacturing in the new factory building on 1 July 2019. 15% of the factory building's total floor space was used as an office and showroom.

During the year 2019, MQSM had acquired a heavy plant and machinery for RM110,000. The installation cost of this new plant and machinery was RM10,000.

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Required:

a) Compute the qualifying building expenditure and industrial building allowance of MK QualitySafety Manufacturing for the Year of Assessment (YA) 2019.

(15 marks)

b) Compute the capital allowance due to MK QualitySafety Manufacturing in respect of its new plant and machinery for YA2019.

(5 marks)

[Total: 20 marks]

QUESTION 4

Betty Hock, Karthika, and Salbiah are three partners in a business providing gardening and landscaping services around Melaka. They had launched their partnership in March 2015. Their partnership agreement is summarised as follows:

Partner	Betty Hock	Karthika	Salbiah
Profit sharing ratio	33.25%	33.25%	33.50%
Capital contribution	RM70,000	RM70,000	RM65,200
Interest per annum on capital contribution	4.25%	4.25%	4.25%
Monthly salary	RM5,600	RM5,600	RM5,600

After four years, their business has grown and they found that they were in need of a new partner to provide the much-needed assistance. After several discussions, they had collectively agreed to take in Azhar Khan as a new partner. They subsequently amended their partnership agreement to reflect the inclusion of Azhar Khan into their business.

The new partnership agreement signed by Betty Hock, Karthika, Salbiah, and Azhar Khan went into effect on 1st May 2019. The summarised details of the agreement are as follows:

Partner	Betty Hock	Karthika	Salbiah	Azhar Khan
Profit sharing ratio	25.00%	25.00%	25.00%	25.00%
Capital contribution	RM100,000	RM100,000	RM100,000	RM100,000
Interest per annum on capital contribution	5.00%	5.00%	5.00%	5.00%
Monthly salary	RM6,000	RM6,000	RM6,000	RM6,000

The partnership's statement of profit and loss for the financial year end of 31st December 2019 is as follows.

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	RM	RM
Service revenue		712,085
Less:		
Gardening and landscaping materials	250,800	
Salaries for employees	72,000	
Salaries for partners	259,200	
Utilities expenses	9,075	
Depreciation	10,400	
Motor vehicle and fuel expenses	6,604	
Interest on partners' capital contributions	16,240	
Legal fees to amend the partnership agreement	900	
Cash donation to Helping Hand Youth House, an approved charitable body, made on 19th March 2019.	700	
Free gardening and landscaping services throughout September to an approved orphanage.	1,000	(626,919)
Net profit before tax		85,166

The business was eligible to claim a capital allowance of RM10,760 for the Year of Assessment (YA) 2019.

Required:

a) Calculate the provisional adjusted income and divisible income of the partnership business for YA 2019.

(6 marks)

b) Calculate the total income of each partner for YA 2019. Round up your answers to the nearest Ringgit Malaysia (RM).

(14 marks)

[Total: 20 marks]

QUESTION 5

Mr. Gopalan operates a mini market known as Gopalan Enterprise since the year 2010. The business prepares its accounts to 31 December annually.

As for the year ended 31 December 2019, the business' profit before taxation is RM42,987. Items charged in arriving at the profit before taxation amount include the income and expenses stated in the following notes:

1.	Costs of sales include:	RM
	Damaged stocks written off	9,375
	Provision for stock obsolescence	18,000
	Withdrawal of goods for Mr. Gopalan's personal use	1,700

Continued …….

2.	Payroll costs comprise of:	RM
	Staff salaries and remuneration	128,370
	Salaries of Mr. Gopalan	36,000
	Medical expenses of staff	4,880
	Bonus for staff (1-month salary)	16,000
	Employee Provident Fund (EPF) contribution for staff	12,993
	EPF contribution for Mr. Gopalan	3,240
3.	Entertainment expenses include:	RM
	Staff's annual dinner	3,200
	Mr. Gopalan's family trip to Singapore	5,000
	Staff's family day in Langkawi, Kedah	4,900
4.	Motor vehicle expenses include:	RM
	Repair and maintenance of the business' vehicles	7,500
	Renewal of road tax and insurance of the business' vehicles	3,655
	Summons for over-speeding offences	1,500
	Depreciation	30,000
5.	Provision for doubtful trade debts is made up of:	RM
	Specific provision	6,710
	General provision	10,000
6.	Donations include:	RM
	Cash contributions to the Heart Foundation of Malaysia, an approved charitable institution	1,500
	Contribution of hampers to old folks' home in Cheras, Selangor	1,000
7.	Other income comprises of:	RM
	Gross single-tier dividend from Alpha (Malaysia) Bhd.	4,000

The business was eligible to claim RM22,000 and RM3,500 as capital allowances and balancing allowance, respectively, for the Year of Assessment 2019.

Required:

Compute the total income of Mr. Gopalan for YA 2019.

Note: Start your computation with profit before taxation figure. Indicate 'NIL' in the appropriate column for item that does not require adjustment.

(Total: 20 marks)

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APPENDIX

TAX RATES AND ALLOWANCES

The following tax rates, allowances and values are to be used in answering the questions.

1. Income tax rates for resident individuals for the Year of Assessment (YA) 2019.

Chargeable Income (RM)	Calculations (RM)	Tax Rate %	Tax Payable (RM)
0 - 5,000	On the first 2,500 Next 2,500	0 0	0 0
5,000 – 10,000	On the first 5,000 Next 5,000	 1	0 50
10,000 - 20,000	On the first 10,000 Next 10,000	 1	50 100
20,000 - 35,000	On the first 20,000 Next 15,000	 3	150 450
35,000 - 50,000	On the first 35,000 Next 15,000	 8	600 1,200
50,000 - 70,000	On the first 50,000 Next 20,000	 14	1,800 2,800
70,000 - 100,000	On the first 70,000 Next 30,000	 21	4,600 6,300
100,000 - 150,000	On the first 100,000 Next 50,000	 24	10,900 12,000
150,000 - 250,000	On the first 150,000 Next 100,000	 24	22,900 24,000
250,000 - 400,000	On the first 250,000 Next 150,000	 24.5	46,900 36,750
400,000 - 600,000	On the first 400,000 Next 200,000	 25	83,650 50,000
600,000 – 1,000,000	On the first 600,000 Next 400,000	 26	133,650 104,000
Exceeding 1,000,000	On the first 1,000,000 Next ringgit	 28	237,650 .....

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2. Reliefs for the Year of Assessment (YA) 2019.

	RM
Personal relief	9,000
Disabled taxpayer (additional relief)	6,000
Spouse relief	4,000
Disabled spouse relief (additional relief)	3,500
Medical expenses for parents	5,000
Parental care	1,500 per parent
Medical expenses for serious diseases (including medical examination expenses up to RM500)	6,000
Basic supporting equipment for disabled taxpayer, spouse, children, or parents	6,000
Child relief (below 18 years old) - Each - Disabled	 2,000 6,000
Child relief (over 18 years old and studying in higher learning institutions) - Each - Disabled	 8,000 14,000
Amount deposited into SSPN for child	8,000
Premium on deferred annuity contract and private retirement scheme	3,000
Employee contribution to Employees' Provident Fund (EPF) or approved provident fund	4,000
Premium on life insurance - Public servants under pension scheme - Others	 7,000 3,000
Premium on medical/education insurance	3,000
Employee's contribution to SOCSO scheme	250
Education fees paid by taxpayer for his own self-improvement	7,000
Lifestyle expenses	2,500
Breastfeeding equipment	1,000
Fees paid to childcare centre and kindergarten	1,000

3. Rebates for the Year of Assessment (YA) 2019.

	RM
Chargeable income not exceeding RM35,000	
- Individual	400
- Additional relief when spouse relief is claimed	400

Continued …….

4. Values of benefits-in-kind.

a. Car and fuel benefits

Cost of car (when new) (RM)	Prescribed annual value of private usage of car (RM)	Fuel per annum (RM)
Up to 50,000	1,200	600
50,001 – 75,000	2,400	900
75,001 – 100,000	3,600	1,200
100,001 – 150,000	5,000	1,500
150,001 – 200,000	7,000	1,800
200,001 – 250,000	9,000	2,100
250,001 – 350,000	15,000	2,400
350,001 – 500,000	21,250	2,700
500,001 and above	25,000	3,000

The value of car benefit equal to half of the above prescribed annual value is taken if the car provided is more than five years old, but the value of the fuel provided remains unchanged.

Where a driver is provided by the employer, the value of the benefit per month is fixed at RM600.

b. Household furnishing, equipment, and appliances

Types of benefit	Annual value of benefit (RM)
a. Semi-furnished with furniture in the lounge, dining room, or bedrooms.	840
b. Semi-furnished with furniture as in (a) above and one or more of the following: air-conditioners, curtains and carpets.	1,680
c. Fully-furnished with furniture as in (a) and (b) above and one or more of the following: kitchen equipment, crockery, utensils, and appliances.	3,360

c. Provision of the following benefits by employer

Gardeners	RM3,600 per annum
Domestic servants	RM4,800 per annum
Guard	RM4,800 per annum

Continued …….

5. Capital and industrial building allowances

Types of asset	Initial allowance rate (%)	Annual allowance rate (%)
Motor vehicles and heavy machinery	20	20
General plant and machinery	20	14
Office equipment, furniture and fittings, others	20	10
Computers, information technology equipment and computer software	20	40
Industrial building	10	3

End of Paper.